

The Department's regulation at Section 130.325(b)(1)(D) provides that the graphic arts machinery and equipment exemption includes printing by methods including digital printing. (This is a GIL.)

June 6, 2002

Dear Xxxxx:

This letter is in response to your letter dated March 5, 2002. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120 subsections (b) and (c), which can be found at <http://www.revenue.state.il.us/Laws/regs/part1200/>.

In your letter, you have stated and made inquiry as follows:

My company is a sales and service organization. We sell and service wide format digital printers and xerographic copiers. AAA does not manufacture this equipment; we are dealers for the manufacturers.

I am requesting a Private Letter Ruling based on a specific question.

We sell these products to a number of different markets, including manufacturers. I have one manufacturer in particular who claims to be eligible for a manufacturing equipment exemption on the purchase of a wide format digital printer.

We sold a digital printer to BBB that was connected to their engineering department CAD computers network. They use this machine to create:

- 'Check plots' that are used by the designers to check their work
- Final part or production drawings that may be sent down to the manufacturing floor to serve as the source of information for the actual manufacture of products to be sold
- Final part or assembly drawings that are distributed to the customer who purchases their products

The customer's CAD computers are also networked to various manufacturing machines (CNC) to enable direct control of these machines by way of the CAD designs.

AAA just recently completed an audit with your department, and while we came through as compliant in most instances, there were areas in which we were not compliant. I wish to make sure in the future that we are in compliance in every aspect. Further, we do a fair amount of business with manufacturers. We sell digital printers that range in price

anywhere from \$7,500 on up to \$ 75,000, so there is a fair amount of tax revenue involved here.

This request is being made on the behalf of AAA. Thank you in advance for your assistance. Please call me if you have any questions.

For your information, we have enclosed a copy of 86 Ill. Adm. Code 130.325, which is the Department's regulation for the Graphic Arts Machinery and Equipment exemption. The Graphic Arts Machinery and Equipment exemption extends to machinery and equipment, including repair and replacement parts, both new and used and including that manufactured on special order to be used primarily (over 50% of the time) in graphic arts production. The exemption extends to purchases by lessors who will lease the property for use primarily in graphic arts production.

Prior to recent legislation, "graphic arts production" meant printing by one or more of the common processes or graphic arts production services as those processes and services are defined in Major Group 27 of the U.S. Standard Industrial Classification Manual. Generally digital imaging and printing systems did not qualify for the exemption unless used in the production of manifold business forms or greeting cards.

However, Public Act 91-541 was signed into law on August 13, 1999. This measure amended the definition of "graphic arts production" to mean "printing, including ink jet printing, by one or more of the processes described in Groups 323110 through 323122 of Subsector 323, Groups 511110 through 511199 of Subsector 511, and Group 512230 of Subsector 512 of the North American Industry Classification System published by the U.S. Office of Management and Budget, 1997 edition. Graphic arts production does not include (i) the transfer of images onto paper or other tangible personal property by means of photocopying or (ii) final printed products in electronic or audio form, including the production of software or audio-books." Group 323115 of the North American Industry Classification System includes digital printing processes.

Section 130.325(b)(1)(C) provides that "[t]he exemption applies to machinery and equipment used in graphic arts production processes, as those processes are described in the NAICS. While the NAICS subsectors referenced in subsection (b)(1)(A) describe types of graphic arts establishments that typically engage in graphic arts production, the exemption is not limited to qualifying machinery and equipment used by the establishments described in the NAICS, but rather, to qualifying machinery and equipment used in the printing processes described in the NAICS (for example, lithography, gravure, flexography, screen printing, quick printing, digital printing and trade services such as prepress and binding and finishing services)."

The summary for Group 323115 provides that "[t]his U.S. industry comprises establishments primarily engaged in printing graphical materials using digital printing equipment. Establishments known as digital printers typically provide sophisticated prepress services including using scanners to input images and computers to manipulate and format the graphic images prior to printing." The Department's regulation at Section 130.325(b)(1)(D) provides that "[t]he exemption includes printing by methods of engraving, letterpress, lithography, gravure, flexography, screen, quick, and digital printing. Section 130.325(b)(1)(E) defines "digital printing" as "the printing of graphical text or images by a process utilizing digital technology, as provided in subsection (b)(4) of this Section." Generally the type of digital printers you describe would qualify.

With regard to xerographic copiers, please note that Section (b)(5)(E) provides that the use of machinery or equipment to photocopy printed matter will generally not be considered to be graphic

arts production. "A copier that is capable of printing images or text transmitted to it in digital form will qualify. However, a copier that produces photocopies by means of xerographic technology is subject to tax."

Subsection (b)(8) provides that "[p]urchasers wishing to claim the exemption must certify to their suppliers that the machinery and equipment will be used primarily for graphic arts production. Retailers must maintain the certificates in their books and records." "The certificate must include the seller's name and address, the purchaser's name and address and a statement that the property purchased will be used primarily in graphic arts production." "If a graphic arts producer or lessor purchases at retail from a vendor who is not registered to collect Illinois Use Tax, the purchaser must maintain a copy of the certification in his records to support the deduction taken on the return." The Department's form ST-587, Equipment Exemption Certificate may be used for claiming the graphic arts machinery and equipment exemption.

Please note that subsection (c)(1) through (c)(7) sets forth the regulatory provisions in effect until the legislative change of August 13, 1999.

I hope this information is helpful. The Department of Revenue maintains a Web site, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Martha P. Mote  
Associate Counsel

MPM:msk  
Enc.